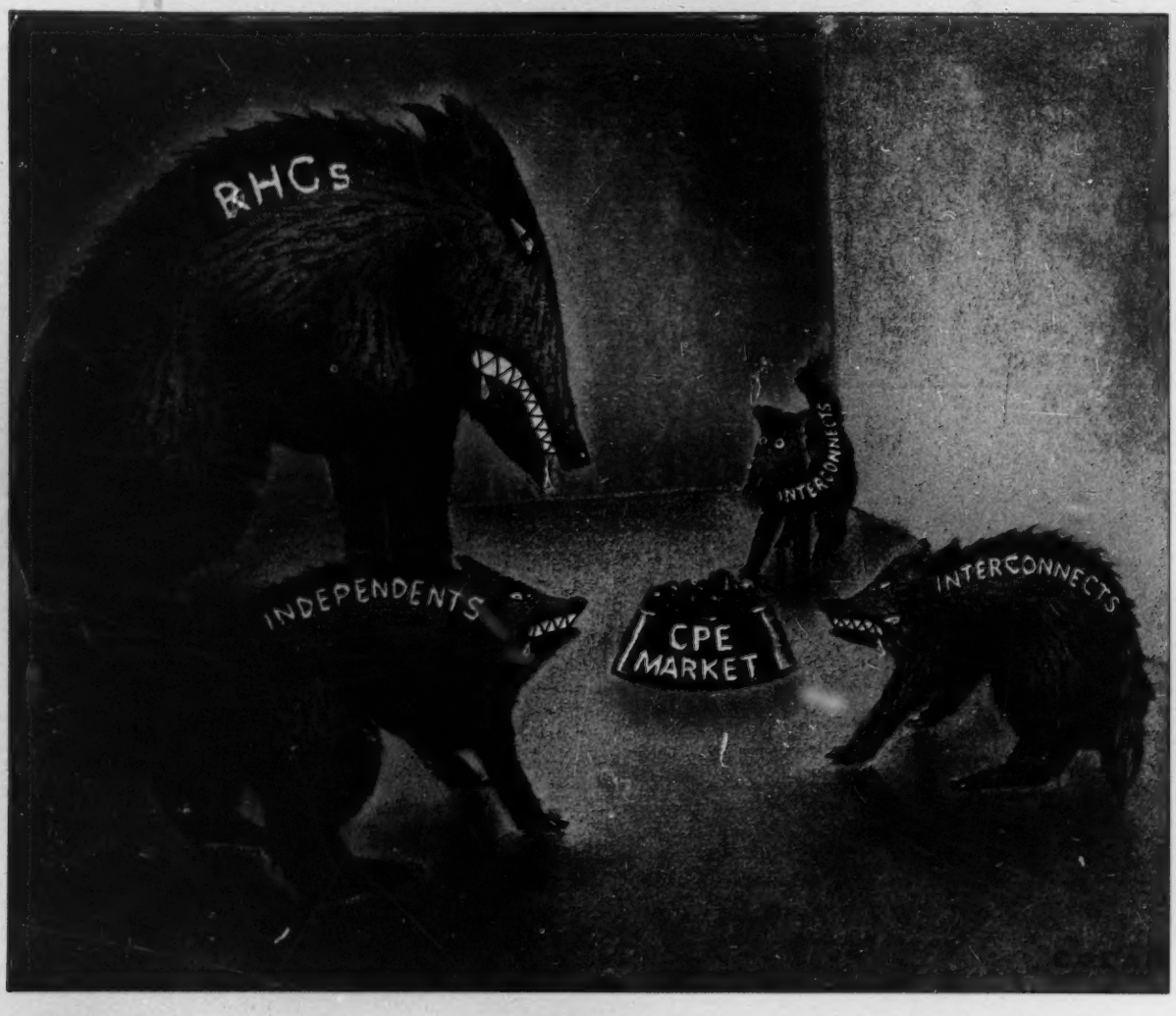
C8700-1
5/12/87

Telephony

MAY 11, 1987 COVERING TELECOMMUNICATIONS SINCE 1901 $3.00



COVER

Only the Strong Will Survive the Dog-Eat-Dog CPE Marketplace

20814 MD
BETHESDA
4520 EASTWEST HIGHWAY
STE 800
CONGRESSIONAL INFORMATION SERV
669 J KENNEDY SRI
TEL00116958
**********5-DIGIT 20814

TOP NEWS

Lemasters out, Weber in at Contel

Pac Bell delays Project Victoria trial

Southwestern Bell to test videotex

DOJ turnaround leaves Metzenbaum doubtful

Telephony

COVERING TELECOMMUNICATIONS SINCE 1901

MAY 11, 1987

TOP HEADLINES

Lemasters leaves Contel 13

FCC ruling threatens Project Victoria 13

WASHINGTON NEWS

Congress dubious of DOJ about-face 14

NECA paves way for rate cuts 14

Nynex plugs for int'l service 14

NEWS OF THE WEEK

SWB to stage videotext trial 21

BellSouth spotlights Ringmaster 21

Pac Bell to pay $191M refund 21

AS WE SEE IT

Try, Try Again
The DOJ's recent retraction of its recommendation allowing the RHCs to provide long-distance service leaves the public with lots of unanswered questions 27

DEPARTMENTS

Advertisers' Index 118

Helpful Literature 120

Letters 12

Meetings 11

Moving Around Industry 101

New Products and Services 72

News of the Week 21

Plant Man's Notebook 71

Top Headlines 13

Washington News 14

CPE MARKET SURVEY

A Dog-Eat-Dog World
By Larry Lannon and Czatdana Inan. The traditional interconnects are having a tough time competing in a market flooded with CPE suppliers affiliated with telcos 30

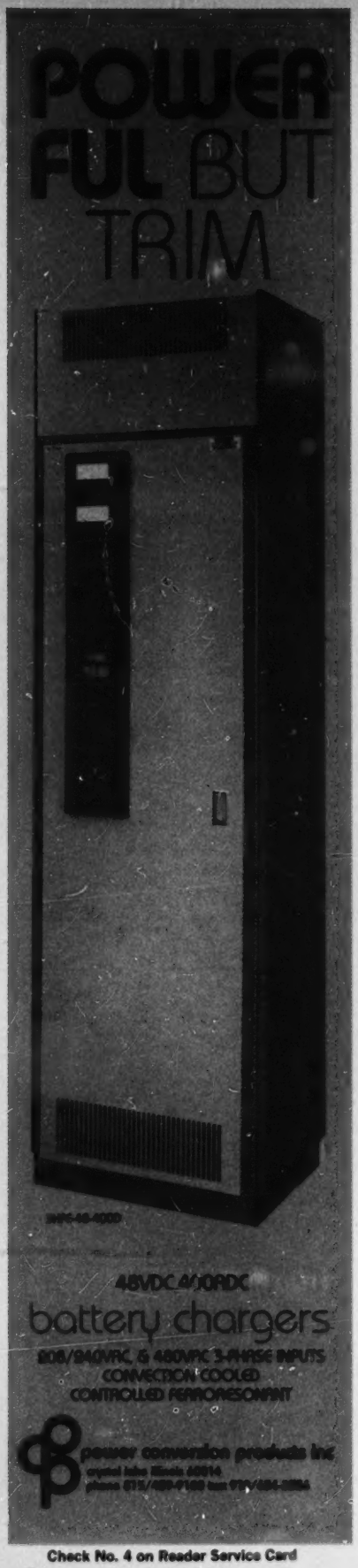
CPE Industry Leaders Respond
The interconnect executives map out the path to profits 38

INTERCONNECT MARKETING

Remote Access Adds Flexibility
By Peter F. Polizzano. Remote access devices potentially can expand the business horizons of many interconnect companies 58

OUTSIDE PLANT

Conestoga Tel Gets In the MODE
By Robert E. Meyers. Conestoga Telephone proves that even small telcos can afford to mechanize their outside plant records 65



Check No. 4 on Reader Service Card

Telephony

COVERING TELECOMMUNICATIONS SINCE 1901

MAY 11, 1987
VOLUME 212
NUMBER 19

EDITORIAL

Editor/LARRY LANNON

Technical Editor/SANDRA WILLIAMSON

Senior Technical Editor/RAY BLAIN

International Editor/JOHN WILLIAMSON

European Editor/PETER PURTON

Features Editor/ELLIS BOOKER

Managing Editor/KAREN WOODWARD

News Editor/CAROL WILSON

Associate Editor/SUSAN UBIS
Associate Editor/PATRICIA TOBIN

Assistant Editor/ELIZABETH SCHULTZ

Washington Editor/LINDA M. BUCKLEY

Outside Plant Editor/LLOYD F. (FRANK) BRISK

Art Director/JIM COLAO

Editorial Assistant/DEBBIE PFEIFFER

ADMINISTRATION

Group Vice President/JOHN WICKERSHAM

Publisher/LEO ANDERSON

Research Director/CZATDANA INAN

Special Projects Director/GERRY BARRETT

Publisher's Assistant/JOYCE B. KLEIN

ADVERTISING & MARKETING

Director of Marketing & Sales/
ROBERT J. WEHOFER

Advertising Manager/CHARLES E. DOWD

Advertising Service Manager/
BARBARA HURD

Classified Advertising Manager/
JEANNE VALENTINE

Marketing Communications Manager/
SUSAN HANNON

Production Manager/LYNITA BARLOW

Production Assistant/BETH DUGAN

CIRCULATION

Director of Circulation & Research/
DOUGLAS RIEMER

Circulation Director/CHARLES RASH

Circulation Manager/CHRIS LOTESTO

HEADQUARTERS OFFICE

TELEPHONY DIVISION,
Intertec Publishing, 55 E. Jackson,
Chicago, IL 60604
Telephone 312/922-2435;
TWX 910/221-1058 FAX 312/922-1408
EUROPEAN BUREAU, 71 Coval Lane,
Chelmsford, Essex CM1 1TG, England;
Telephone Chelmsford (0245) 283984;
Telex 995801 GLOTLX-G. FAX (0245) 287221

REGIONAL ADVERTISING OFFICES

EASTERN

1 Lethbridge Plaza Mahwah, NJ 07430
201/529-1116

SOUTHWESTERN

PO Box 820485 Dallas, TX 75382-2333
214/739-2946

SOUTHEASTERN

55 E. Jackson, Chicago, IL 60604
312/922-2435

WESTERN

Roy McDonald Associates, Inc.
San Francisco (Emeryville) 94608
5915 Hollis St.
415/653-2122
Fountain Valley, CA 92708
10231 Slater Ave., Suite 211
714/962-1575
Englewood, CO 80112—14 Inverness Dr.
E Bldg A-#232—(303) 790-8181
Hillsboro, OR 97123—510 S. First
503/640-2011

FRANCE/BELGIUM/SWITZERLAND

32 rue Desbordes Valmore, Paris 75116
Phone (1) 45 04 97 94

NETHERLANDS/GERMANY/AUSTRIA

S.I.P.A.S.
PO Box 25, 1483 ZG DeRyp Holland
Phone 02997-1303 Telex 13039 sipas ni
FAX (02997) 1500

ISRAEL

Talbar & Associates, 5 Bnei Brit St.
Jerusalem 95146—Phone 02-228083
Telex 26144 BXJM IL Ext. 7285

UNITED KINGDOM/SCANDINAVIA/ITALY/IRELAND

Intergroup Communications Inc.
286 W. Barnes Lane, Motspur Park
New Malden, Surrey KT3 6LU
Phone (01) 949-0354 Telex 291561 VIASOS G

JAPAN

Nippon Keisoku, Inc.
PO Box 410, Central Tokyo 100-91
Phone (03) 292-0971

SOUTHEAST ASIA/AUSTRALIA/NEW ZEALAND

CCI Asia Pacific
Ste. 905, Guardian House
32, Oi Kwan Road, Happy Valley, Hong Kong
Telephone 5-8332181 Telex 75368 AMRHK
Cable ENTRECHIN

TELEPHONY (ISSN 0040-2656/83-01 $1.50) is published weekly by Telephony Division, Intertec Publishing. Postmaster: Please send address changes to Subscription Dept. TELEPHONY, 55 E. Jackson Blvd., Chicago, IL 60604-4188. Second class postage paid at Chicago, IL, and at additional mailing offices. Single copies (payable in advance) U.S. $3.00 ea. Outside U.S. add $1.00 ea. Subscriptions: $35 one year. Outside U.S. $61 per year. Subscription rates apply to employees of operating telephone companies; telephone consultants; contractors; interconnect companies; specialized common carriers; military; government; associations; private communications users; schools; libraries. Change of address: include old address as well as new address. Attach issue label if possible. Allow 4 weeks for change to become effective.
Copyright 1987 by Telephony Division, Intertec Publishing. Permission to photocopy for internal or personal use or the internal or personal use of specific clients is granted by Telephony for libraries and other users registered with the Copyright Clearance Center (CCC) provided that the fee of $1.50 per page is paid directly to CCC, 21 Congress St., Salem, MA 01970. Special requests should be addressed to publisher.

The CPE Marketplace Is a Dog-Eat-Dog World

LARRY LANNON, EDITOR,
AND CZATDANA INAN,
RESEARCH DIRECTOR

Cover art by Jim Colao

AFFILIATES of the regional holding companies are rapidly becoming the dominant players in the customer premises equipment market. And CPE competitors affiliated with large Independent local exchange carriers continue to play crucial roles in the CPE market.

The market power of CPE competitors affiliated with either an RHC or an Independent parent company can be expected to become even greater in the next few years as customers increasingly demand CPE systems which can handle integrated communications.

How are the traditional interconnects doing in the contemporary CPE market? On the whole, not too well. But the prosperous interconnects are doing very well indeed.

These conclusions are based on work done by Telephony's Market Research Department for this year's Composite Index of U.S. Business CPE Providers. This story will be based entirely on data in the index. The complete index will be released as a research report. (For more information about the Composite Index of U.S. Business CPE Providers, contact Telephony's Market Research Department.)

The contemporary interconnect industry is dominated by three types of companies: CPE competitors affiliated with Bell regional holding companies, CPE competitors affiliated with Independent telephone companies and traditional interconnect companies. In addition, retailers play a role in the market. There also is a group of fairly small but prosperous interconnects who are making their marks right now and bear watching.

The Composite Index of U.S. Business CPE Providers lists 25 RHC affiliates, Independent affiliates and interconnects, including three up and coming interconnects (Figure 1). As a whole, those CPE Top 25 had estimated and reported sales of approximately $2.6 billion in 1986. The 1986 sales of the CPE Top 25 represent a robust growth of 21% from sales of approximately $2.2 billion in 1985. That rate of growth is expected to continue this year. The CPE Top 25 expect to sell roughly $3.2 billion worth of equipment this year, a 22% growth rate.

Growth in the 21% to 22% range is healthy by anyone's standards. But, for the CPE Top 25, growth of that magnitude actually represents a slowdown. In 1984, the CPE Top 25 reported sales of $1.7 billion. Since 1986 sales were $2.2 billion, the CPE Top 25 enjoyed a 27% growth rate in 1985, 6% above the 1986 growth rate and 5% over the projected 1987 growth rate.

Though the index clearly shows how the strongest elements in the rough CPE market are doing, it does not touch upon the other half of the business equation, the progress and prospects for the weaker companies.

But it is clear that many CPE competitors continue to struggle with difficult conditions in a market that once seemed to reward nearly everyone with its bounty. Harsh competition has crushed the fondest hopes of some CPE entrepreneurs. Failures and sharp earnings drops function as monuments to an unforgiving and sophisticated market.

As users, particularly large users, increasingly demand integrated CPE or at least CPE which will not preclude integration sometime in the not too distant future, technological mastery is playing a correspondingly greater role in the market. Today, the ability to provide sophisticated, flexible systems to business customers and to maintain those systems over a prolonged period is supplanting the importance of the sales-making expertise which fueled the rapid growth of the traditional interconnect industry during its heyday a few years ago.

Traditional interconnects have demonstrated in the past that they can identify the market's real needs and respond to them. Now they again must respond creatively to a market in rapid transition.

But this time, CPE competitors associated with Bell and Independent parents are determined to be more customer-oriented, more responsive, more competitive. They are confident they have learned the hard lessons the interconnects taught them a decade ago. They also continue to believe they have unparalleled credibility on technical matters. The growing importance of technological sophistication in the CPE market plays to their strength, or so these competitors believe.

Underlying competition within the CPE market is the revival of Centrex service. Not only must CPE competitors flail away at one another, they also must compete with a CO-based technology they once thought had

Telephony's annual survey of the top players in the CPE industry reveals a battleground dominated by affiliates of the regional holding companies

been vanquished but which has now emerged infinitely stronger in its new guise as the transitional step or even gateway to the ISDN. CPE competitors affiliated with parent companies built around the local exchange business are likely to take a much more benign view of Centrex service than are traditional interconnects.

So once again market forces seem to be exerting maximum pressure on a particular type of competitor. It is the traditional interconnect which is likely to be hurt the most by the Centrex revival.

The clash in the CPE market promises to heat up even more in the coming year. Traditional interconnects are likely to continue to feel the squeeze the most. These market pressures probably will increase the gulf between the strong and the weak interconnects, and call the continued viability of the weaker interconnects into question.

Each of the seven RHCs has a CPE affiliate. This seven-member market segment will continue to be the most significant and dynamic factor in the CPE competition.

The RHC affiliates remain extremely reluctant to talk in specifics about their progress in the market. The index consists of Telephony's estimates about the RHCs' sales. In 1984, the seven RHCs had estimated sales of $650 million. In 1985, estimated sales had jumped by an astonishing 51% to $980 million. However, that estimate includes Centrex and other network service sales; if those sales are subtracted, the RHC affiliates' growth rate would be roughly 21%.

Last year, their estimated sales were approximately $1.3 billion, a muscular growth rate of 30%.

During the coming year, the RHC affiliates are expected to sell roughly $1.7 billion worth of CPE equipment.

Their annual growth rate is expected to be 32%, a 2% increase over the 1986 rate.

US West Information Systems had 1986 sales of $89 million in its 14-state area, and a whopping 53% increase over 1985 sales. Southwestern Bell Telecom had annual sales of more than $100 million for the third straight year, and recorded a 14% increase in 1986.

Four Independent affiliates are in the CPE Top 25. They are Centel Business Systems, Contel/Executone, SNET Telecommunications Group and Rotelcom Network Systems.

As a group, the four Independent affiliates are doing much better than they were.

In 1984, the four Independents reported sales of $517 million worth of CPE equipment. In 1985, their CPE sales had improved but only by a marginal 1% to $525 million. The low 1985 growth rate, however, reflected Centel's sale of a non-affiliated supply business; if that sale had not led to a restatement of sales revenue, the growth rate for the four Independent affiliates in 1985 would have been 10%. Last year, the four Independent affiliates reported CPE sales of $594 million, a solid 13% growth rate.

Centel Business Systems reported a 14% increase in sales, from $193 million in 1985 to $220 million in 1986. Contel/Executone reported sales jumped from $215 million in 1985 to $268 million in 1986, a vigorous 25% improvement.

However, SNET's sales declined 3% from $70 million in 1985 to $68 million in 1986. Rotelcom's dropped 17% from $47 million in 1985 to $39 million in 1986.

According to our projections, the four Independent CPE competitors can look forward to an improving picture for the current year. They are expected to sell $712 million worth of CPE gear and services in 1987, a 20% growth rate. Each is projecting unproved sales this year.

The RHC and Independent affiliates are both showing their muscle in the CPE market. But a group of 11 traditional interconnects also put their shoulders to the CPE grindstone last year. And their display of sinew paid off handsomely in sales.

Two of the 11 interconnects had sales in excess of $100 million last year, according to our index.

Telecom Plus, Boca Raton, Fla., had estimated sales of $255 million in 1986, up from the $250 million it had in 1985.

RCA Telephone Systems, Cherry Hill, N.J., reported sales of $120 million last year, up $10 million from its 1986 figure of $110 million.

Four interconnects reported sales in the $30 million to $90 million range. Universal Communications Systems, Roanoke, Va., reported sales of roughly $87 million to lead this group. Universal Communications' 1986 performance was at the $66 million level, so the company enjoyed a 31.8% growth rate during the year.

Norstan's 1986 sales were roughly

$76 million. The Plymouth, Minn.,-based interconnect reported a spectacular 76.7% rate of growth from 1985 sales of approximately $43 million.

Communications Corp. of America, Dallas, suffered through a tough year. Its 1985 sales of $50 million slumped 14% to roughly $43 million. Jarvis Corp., Glen Allen, Va., enjoyed steady growth of 14% last year, reporting a sales increase from $31.5 million in 1985 to $36 million in 1986.

Five companies composed the third echelon of the 11 interconnects in our index this year.

Communications Consultant Inc., Phoenix, Ariz., reported that sales, which were $23 million in 1985, increased by 21.7% to $28 million in 1986.

ABI American Businessphones, Irvine, Calif., which had sales of $16 million in 1985, reported sales of $24 million in 1986, a 50% growth rate.

Gray Communications, Pittsburgh, reported sales of $25 million in 1986, up 38.8% from 1985 sales of $18 million.

Standard Telecommunications, South Hackensack, N.J., had a flat growth curve last year. It reported sales of roughly $20 million in 1985 and approximately $19 million in 1986.

Henkels & McCoy/Telecom Systems, Blue Bell, Pa., suffered through a 44% decline in sales, going from $34 million in 1985 to $19 million in 1986.

It is significant that the 11 traditional interconnects included in our CPE Top 25 anticipate collective growth of 13% next year. Only Communications Corp. of America anticipates a decline in sales revenues during 1987. Most anticipate fairly modest growth.

Two of the 11 traditional interconnects anticipate major growth during '87.

Universal Communications sees its sales revenues jumping 22% this year, from roughly $87 million in 1986 to $106 million. Norstan is even more optimistic. It anticipates sales revenues of $100 million in 1987, up 31% from last year's figure of roughly $76 million.

Three up and coming interconnects are included in the CPE Top 25

FIGURE 1 COMPOSITE INDEX OF U.S. BUSINESS CPE PROVIDERS

	Sales ($000,000)			
	Actual 1984	1985	1986	Est. 1987
7 RHC Affiliates	650.0*	980.0* +51%[a]	1,275.0* +30%	1,689.0* +32%
Independent Affiliates				
Centel Business Systems (Chicago, IL)[b]	219.7	193.0[c]	219.8	288.0*
Contel/Executone (Atlanta, GA)	195.0*	215.0*	268.0*	305.0*
SNET Telecommunications Group (New Haven, CT)	52.6	69.8	67.6	76.8
Rotelcom Network Systems (Rochester, NY)[d]	50.0	47.0	39.0	42.5*
	517.3	524.8 +1%[c]	594.4 +13%	712.3 +20%
Non-Affiliated				
Telecom Plus (Boca Raton, FL)	155.2	249.9*	255.0*	283.0*[f]
RCA Telephone Systems (Cherry Hill, NY)	102.0	110.0	120.0	130.0*
Universal Communications Systems (Roanoke, VA)	64.9	66.4	86.9	106.0*
Norstan (Plymouth, MN)	31.5	42.6	76.3[g]	100.0
Communications Corp. of America (Dallas, TX)	62.1	50.1	42.6	32.0
Jarvis Corp. (Glen Allen, VA)	26.7	31.5	36.0	38.0[h]
Communication Consultants, Inc. (Phoenix, AZ)	18.0	23.3	28.2	29.0
ABI American Businessphones (Irvine, CA)	9.1	16.3	23.9	33.0*
Gray Communications (Pittsburgh, PA)	20.0	18.0	25.0	30.0*
Standard Telecommunications (S. Hackensack, NJ)	17.2	19.7	19.4	25.0[i]
Henkels & McCoy/Telecom Systems (Blue Bell, PA)	26.0	34.0	19.0[j]	21.0
	532.7	652.8 +23%	732.3 +12%	827.0 +13%
Up & Coming (and Profitable)				
ATS Telephone & Data Systems (Memphis, TN)	9.9	10.1	14.5	16.1
Communications World Intl. (Denver, CO)	5.1	6.2	8.1	11.0
Interconnect Communications Corp. (Houston, TX)	3.5	4.5	6.8	8.5*
	18.5	20.8 +12%	29.4 +41%	35.6 +21%
25 Competitors' Index Total:	1,718.5	2,178.4 +27%	2,631.2 +21%	3,209.4 + 22%
Retail with Outside Sales Index				
Tandy Corp. (Fort Worth, TX)				
% Increase/Decrease Telecom Sales	nr	+11.9%	+11.6%	+12.1%*

Centel Business Systems and Supply	1984	1985	1986
Sales ($000)			
Regulated Affiliates[a]	36,068	40,489	42,268
Other Customers	219,674	193,097	219,759
	257,742	233,586	262,027
Operating Income ($000)	10,421	(3,877)	6,121
Order Backlog ($000)	96,768	71,411	77,834
Assets ($000)	148,605	120,261	241,561
Installed Lines	700,085	825,171	1,146,402
Employees	2,111	1,941	2,593[b]
Locations	52	56	109[b]

a: Centel Supply sales
b: reflects acquisition of M/A-Com Information Systems

Source: Telephony Market Research
*estimated by Telephony
a: 1985 and thereafter includes Centrex (valued at $162 million in 1985 increase over 1984)
b: does not include sales by Centel Supply to regulated affiliates
c: does not include revenues of non-affiliated supply business sold 1/20/86
d: sales to non-affiliated customers
e: acquired Compath

Universal Communications Systems	1984	1985	1986
Financials ($000)[a]			
Total Sales	64,900	66,400	86,900
Cost of Sales	56,900	56,600	76,700
Orders Booked	10,900	10,900	16,100
Total Inventory Levels	34,000	34,300	49,000
Installed Lines	626,000	725,000	810,000
Employees	537	595	876
Locations	nr	nr	220

a: financials are fiscal year (June 30), otherwise calendar year

Norstan Inc.[a]	1984	1985	1986[b]
Financials ($000)			
Total Sales	31,464	42,617	76,260
Cost of Sales	23,103	30,957	56,086
Orders Booked	35,459	47,983	70,000
Inventory Level	8,205	7,175	16,425
Assets	38,246	39,843	55,689
Installed Lines	150,000	170,000	390,000
Employees	492	619	978
Locations	11	11	19

a: fiscal year ending April 30
b: acquired Electronic Engineering Co.

Communications Corp. of America	1984	1985	1986
Financials ($000)			
Total Sales	62,079	50,097	42,611
Cost of Sales	52,635	45,957	37,324
Orders Booked	15,000	10,075	3,995
Inventory Level	20,877	22,832	15,971
Assets	44,000	43,580	24,552
Installed Lines	275,000	325,000	420,000
Employees	637	665	489
Locations	23	24	20

Communication Consultants, Inc.	1984	1985	1986
Financials ($000)			
Total Sales	17,964	23,283	28,228
Cost of Sales	10,938	15,154	17,083
Orders Booked	21,400	29,500	31,618
Inventory Level	1,849	2,317	2,496
Assets	7,371	9,807	9,314
Installed Lines	136,800	151,450	159,430
Employees	219	283	290
Locations	4	5	5

ABI American Businessphones[a]	1984	1985	1986
Financials ($000)			
Total Sales	9,095	16,293	23,897
Cost of Sales	5,095	9,537	13,126
Inventory Levels	483	2,729	4,062
Assets	2,882	10,543	13,211
Installed Lines	28,800	63,000	108,000
Employees	84	236	269
Locations	8	12	14

a: fiscal (June 30)

Gray Communications	1984	1985	1986
Financials ($000)			
Total Sales	20,000	18,000	25,000
Inventory Level	3,800	4,200	5,100
Installed Lines	45,000	75,000	125,000
Employees	217	214	270
Locations	6	6	7

f: Telecom Plus acquired by Siemens
g: acquired Electronic Engineering Co.
h: Jarvis Corp. acquired by Isoetec
i: Standard Telecommunications acquired by JMP, Inc.
j: decision to cutback on national territories

this year. They are ATS Telephone & Data Systems, Memphis, Tenn.; Communications World International, Denver; and Interconnect Communications Corp., Houston.

ATS reported that its sales went up 44.5% last year, from $10 million in 1985 to $14.5 million last year.

Communications World also had a big year, reporting a 31% increase from 1985 sales of approximately $6 million to 1986 sales of roughly $8 million.

Interconnect Communications enjoyed an eye-popping 51% growth rate last year, from 1985 sales of $4.5 million to 1986 sales of roughly $7 million.

Considered as a group, the three interconnects in our up and coming category reported 1986 growth rates of 41%. And the three overachievers are projecting 1987 growth rates of 21%, less than their 1986 performance, but surely nothing to sneeze at.

Of course, projections in the traditional interconnect sector of the CPE market are notoriously tentative. It is easy to understand the reason, which has to do with the individualistic, entrepreneurial character of the traditional interconnect industry.

Generalizations about interconnect companies are much easier to make than they are to document. Each company is subject to individual, frequently unique business pressures. Major changes in a given company's posture often are related to specific business decisions, some of which are not captured in our index.

For instance, look at Henkels & McCoy/Telecom Systems, a company which at first glance seems to have suffered through a disastrous 1986. Last year the Pennsylvania-based company decided to cut back the national scope of its operations, a decision which contributed largely to its abrupt drop in sales but which also may well prove to have been in its best long-term interests. Next year, our index will provide data which affirms or contradicts that judgment, but this year's figures simply do not.

The accompanying tables provide snapshot looks at Centel Business, Universal Communications, Norstan, Communications Corp. of America, Communication Consultants, ABI

American Businessphones and Gray Communications.

In addition, acquisitions continue to play an important role among traditional interconnects. The trend toward consolidation among traditional interconnects follows several years of brutal price competition which has undercut margins and profits.

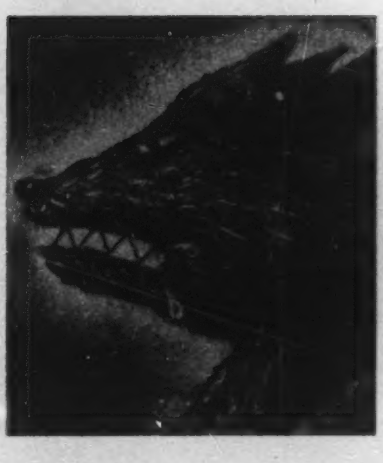
Though price competition in the key system market has been particularly rough, several healthy key system vendors have emerged. American Businessphones and Communications World are conspicuous among the key system success stories.

Perhaps the single most significant interconnect story during the past year was the acquisition by Siemens of Telecom Plus. In 1985, Telecom Plus reported sales of nearly $250 million and made a significant acquisition of its own when it picked up Compath. Its acquisition of Telecom Plus provides Siemens, a major CO and PABX switching manufacturer, with an experienced distribution channel for its CPE product line.

In addition, Norstan acquired Electronic Engineering last year. JWP Inc., recently acquired Standard Telecommunications and Jarvis was acquired by Isoetec.

Granted that interconnects have as many differences as similarities, it is clear that the traditional interconnect segment is undergoing a sea change in its economic weather. The CPE market which created and nurtured the interconnect industry, and which the interconnect industry did so much to bring to maturation, is rapidly vanishing.

The response of individual interconnect companies to these fundamental changes will determine whether they sink under the gale or swim with the new, strong tides.



The seven RHC affiliates are determined to swim profitably with the tides. And for them the tides seem to be running favorably. They are adding staff and installing more lines. The RHC affiliates are pinning their hopes for sustained growth squarely on business users' maturing needs for integrated voice and data systems. Growth in data traffic is expected to drive growth in demand. The RHC affiliates intend to meet those data needs.

The data communications market will grow in the 15% to 20% range this year, according to our research, much more than the 5% to 8% growth projected for voice communications. The product lines being handled by the RHC-affiliated CPE competitors reflect their commitment to a growth-through-data strategy.

A quick product line tour illustrates the point.

Bell Atlanticom Systems carries the Compaq PC workstation, as well as a variety of modems and muxes among its products. BellSouth Advanced Systems features modems, muxes, terminals, printers, entire local area networks and PCs among its product line.

PacTel Info Systems' product line includes muxes, modems, computers and PC LANs. U S West Information Systems has the usual muxes and modems as well as Micom data PBXs and a variety of LANs.

Need voice mail or sophisticated network management equipment? The local RHC-affiliate has them. In the market for fax equipment? How about a computer? How about a lot of computers? The local RHC-affiliate would like to do business.

Of course, the RHC-affiliates are not alone in reacting to the major changes sweeping the CPE market. A growing number of interconnect companies are now doing business with—rather than at the expense of—the RHC-affiliates. Urged on by the North American Telecommunications Association, the interconnect trade group noted for its anti-telco tradition, these enterprising interconnects have entered into sales agency relationships with six RHC affiliates. Those relationships allow the NATA members to sell Centrex service and other network services, and even subcontract CPE sales. The only RHC which is not participating in sales agency relationships is PacTel InfoSystems. Other interconnects are entering into franchising operations. Teleco USA, Arlington, Texas, for instance, used franchising relationships involving 30 interconnects to sell roughly $98 million worth of CPE in 1986.

All the players in the CPE market—traditional interconnects, RHC-affiliates and Independent-affiliates—are poised to respond rapidly, flexibly, creatively to a market which is more fluid today than ever. They have no choice. The alternative to flexibility and creativity is catastrophe.

For the foreseeable future, that's the way it's going to be in CPE. □